

## CHAPTER 1

### INTRODUCTION

1-1. An operating budget is a formal, written plan that aligns the operating requirements with the funding sources of an organization. An operating budget reflects the missions and specific command objectives of the organization, as well as any limitations and controls (e.g., constraining targets, available funds) imposed upon it. An operating budget provides one the means to control obligations and expenditures against approved funding levels.

1-2. The objective of the operating budget is to provide managers with the ability to plan, organize, staff, and control the operations to accomplish the mission for the fiscal year.

1-3. There are several factors that are critical to the success of an operating budget. The following is a synopsis of those factors that need to be present to create a positive effect on the process.

a. Management Support. Managers at all levels must support the operating budget concept not only in the formulation stage but through the execution stage.

b. Guidelines. Guidance must be issued early to allow sufficient time for logical thought processes to take place, and to allow time for establishing milestone dates, specifying targets and limitations, defining terms, formats, and cost categories.

c. Periodic Review. Operating budgets must be reviewed periodically to determine that the budget is properly executed. Appropriate adjustments can be made after these reviews.

d. Level of Control. The responsibility for budget preparation and execution must be assigned to the level of management that has the responsibility and authority to control costs. Managers should not delegate this responsibility to personnel who do not have the skills and knowledge needed to prepare the organization's operating budget. Budget formulation and execution responsibilities should be incorporated into each appropriate manager's performance standards to ensure accountability.